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## Memorandum

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Date: October 9, 2009  
To: Dan Monroe, Bill Anderson, Joel Hyatt, Jim Davies / City of San Diego  
From: ERA  
Subject: Preliminary Evaluation of Residual Land Values in Grantville

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Distribution: Amitabh Barthakur, Lance Harris

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### Introduction

The following memorandum summarizes ERA's preliminary residual land value evaluation of the proposed development program based on the land use alternative E/F Hybrid. We have examined the land use development program and established nine hypothetical residential and two commercial development prototypes. Figures 1 and 2, presented in the appendix of this memorandum, provide a visual representation of the alternatives as well as a development scheme that illustrates the blocks where the development prototypes are proposed to take place. It is our understanding that the development prototypes provided herein also apply to the "D" and "G" land use alternatives.

### Methodology

ERA began by evaluating historic sales data for Grantville Subarea A, as well as current property for sales in the area<sup>1</sup>. Based on existing functional commercial development in the area, we have estimated that retail commercial/industrial land (with improvements) is valued at approximately \$60 to \$80 per square foot<sup>2</sup>. There are many factors that influence market value. Site characteristics such as lot size, pad size, site configuration, peripheral land uses, topography, drainage, and similar factors affect land value. Similarly, the quality of existing improvements will affect market value. As such, the actual value will change parcel to parcel and by specific commercial land use in Grantville. This estimation for improved land in the area is not a market appraisal, nor does it reflect the true value of any given property. Rather, ERA believes this is practical illustrative threshold for which future land uses can be evaluated against to determine if the proposed development prototypes are feasible in the near-term.

The residual land value analysis examines the following eleven development prototypes using a hypothetical development of a three acre parcel with an existing industrial property<sup>3</sup>. This analysis provides an illustrative comparative example of each prototype's feasibility in relation to each other.

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<sup>1</sup> The comparable sales data is limited.

<sup>2</sup> Per the ERA Market overview, vacancy rates for industrial (4.6%) and retail (1.6%) in the Project area.

<sup>3</sup> 0.4 Building FAR.

The prototypes are summarized as follows:

- River Adjacent High Rise Residential (For-Sale / For-Rent)
- Trolley Adjacent High Rise Residential (For-Sale / For-Rent)
- River Adjacent Midrise Residential (For-Sale / For-Rent)
- Mixed Use Mid Rise Residential (For-Sale / For-Rent)
- Low Rise Residential (For-Rent)
- Mid Box Commercial (Retail)
- Mixed Use Commercial (Retail / Office)

## Assumptions

The data points provided herein assume a level of recovery in the residential and commercial real estate markets. We have assumed that the hypothetical development will be high quality and positioned to take advantage of some of the unique assets within the Redevelopment area (e.g. the River and Trolley). Some key assumptions used within the analysis are briefly explained below and presented in detail in the appendix of this report.

One key driver for financial feasibility will be the residential units' assumed sales price. At this point, the proposed development prototypes do not exist in the area. As a result, ERA examined historic downtown and Mission Valley sales prices, per square foot, with adjustments by product type to attempt to establish some reasonable estimates for sales potential. We also examined existing developments in the Uptown<sup>4</sup> area to help establish price point parameters for mixed-use development.

ERA examined the East Village and Cortez Hill neighborhoods within Downtown to establish a comparable price point for the Redevelopment area. Examining historic sales data<sup>5</sup> from 2000 to 2007, the average sales price was \$505 per square foot. This average includes a wide variety of sales prices as the residential housing market made a historic run on price appreciation peaking in 2006. As such, ERA estimates that average pricing of the high rise units in Grantville will be 16 to 18 percent discounted from the average historic sales points achieved in the comparable Downtown neighborhoods (**Table 2**) during the analyzed time period.

ERA believes that the mid rise product with riverfront adjacency will be positioned to compete with comparable developments in Mission Valley<sup>6</sup>. A similar exercise was used to determine pricing for for-rent residential units in this analysis. All mid rise for-rent residential pricing is in-line or slightly higher than existing comparable developments in Mission Valley (**Table 4**). High rise for-rent residential pricing is slightly discounted from rents achieved in high rise downtown units.

The other key driver to financial feasibility is the associated costs with each development prototype. While the development prototypes are conceptual at this point, ERA has used available cost estimating resources to establish reasonable cost estimates by product type<sup>7</sup>. ERA has not taken into account any potential additional costs associated with environmental clean up beyond the generic assumptions made regarding site preparation and demolition costs.

ERA made adjustments before analyzing the feasibility of the prototypes. First, we tested a different parking format<sup>8</sup> for the mid rise river adjacent residential units. Similar to existing comparable developments in Mission Valley, ERA analyzed tuck under (podium) and surface parking. Eliminating structured parking (with residential wrap) helps maximize potential land value

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<sup>4</sup> New development in the Bankers Hill, Hillcrest, and Golden Hill areas.

<sup>5</sup> Adjusted to 2009 constant dollars.

<sup>6</sup> Due to new construction and river adjacency.

<sup>7</sup> Based on construction type and height of proposed development with adjustments made by ERA.

<sup>8</sup> ERA replaced structured parking with a combination of tuck under (podium) and surface parking in the river adjacent residential prototype.

by reducing parking costs. Second, all residential units (for-sale and for-rent) were assumed to be 1,020 net square feet. Because for-rent residential units are typically smaller, ERA has reduced for-rent residential units to an average of 800 net square feet.

## **Residual Land Value (RLV) Findings**

Residual land value is what a developer would be willing to pay for land for any proposed development after he/she covers all development cost and the required profit. The analysis shows that the most immediate or near-term opportunity for development would be the mid rise river adjacent residential prototype. Both the for-rent and for-sale product would likely yield a RLV above the “threshold” for improved commercial/industrial land. However, if there is public/private investment in the area and rents and housing prices increase, other development prototypes may become more economically viable in the future. Key findings include:

- For-rent residential mixed use product would need to achieve an average rental rate of approximately \$1,900 per unit per month to become feasible (approximately a 15 percent increase in rents in real terms<sup>9</sup>).
- For-sale residential mixed use units need to achieve average sales price of approximately \$408,000 to become feasible (approximately a 15 percent increase in real terms).
- For-rent residential high rise (river and trolley) product will need to achieve average rental rates approaching \$2,400 per unit per month to become feasible (approximately a 20 percent increase in real terms). Further parking reductions near the trolley or the elimination of subterranean parking would aid feasibility of those units.
- For-sale residential high rise units need to achieve average sales price of approximately \$510,000 to become feasible (approximately a 20 percent increase in real terms). This price point yield would be similar to units sold without significant view premiums in the downtown area.
- For-rent residential low rise, mid-box retail, and mixed use commercial are unlikely feasible in their current development format in the near-term.
- Other developments such as student housing and senior housing are potential niche residential products that have not been analyzed but would likely have potential for future development in the area due to parking reductions and associated smaller unit sizes.

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<sup>9</sup> Rent and price increases provided herein refer to the necessary increase above ERA's assumed current market price for proposed prototypes in Grantville.

## Residual Land Value Summary

Project Description	River Adjacent Highrise (For-Sale)	River Adjacent Highrise (For-Rent)	Trolley Adjacent Highrise (For-Sale)	Trolley Adjacent Highrise (For-Rent)	River Adjacent Midrise (For-Sale)	River Adjacent Midrise (For Rent)	Mixed-Use (For-Sale)	Mixed-Use (For-Rent)	Lowrise (For-Rent)	Mid Box (Retail)	Mixed Use Commercial (Office/Retail)
Lot Size (Acre)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Residential Units	280	357	280	357	210	210	120	120	60	0	0
Retail Square Feet (SF)	0	0	0	0	0	0	8,000	8,000	0	30,000	10,800
Office (SF)	0	0	0	0	0	0	0	0	0	0	60,000
Parking (Spaces)	420	536	360	456	315	315	212	212	90	108	205
Parking Type	Structure	Structure	Structure / Sub	Structure / Sub	Surface / Tuck	Surface / Tuck	Structure	Structure	Surface / Tuck	Surface	Structure
Density/FAR (Per Acre)	93	119	93	119	70	70	40	40	20	0.2	0.5
Development Cost per Net SF	\$434	\$337	\$435	\$333	\$315	\$217	\$300	\$230	\$208	\$181	\$308
For-Sale Residential Sales Price per Net SF	\$425		\$415		\$375		\$350				
Estimated Residual Land Values (millions)											
Total Capitalized Value	\$116.5	\$87.7	\$113.8	\$84.2	\$77.1	\$44.3	\$44.0	\$32.9	\$9.5	6.4	\$20.4
(Less Development Costs)	(\$123.9)	(\$96.3)	(\$124.2)	(\$95.2)	(\$67.4)	(\$36.4)	(\$39.2)	(\$30.0)	(\$8.5)	(\$4.9)	(\$20.0)
Residual Land Value (RLV)	(\$7.4)	(\$8.7)	(\$10.4)	(\$11.1)	\$9.7	\$8.0	\$4.8	\$2.9	\$1.0	\$1.5	\$0.5
Estimated Land Residual Values											
RLV per Acre	(\$2,470,000)	(\$2,890,000)	(\$3,470,000)	(\$3,680,000)	\$3,240,000	\$2,650,000	\$1,610,000	\$950,000	\$350,000	\$500,000	\$150,000
RLV per SF of Land Area	(\$57)	(\$66)	(\$80)	(\$85)	\$74	\$61	\$37	\$22	\$8	\$12	\$3
RLV per Unit	(\$26,400)	(\$24,300)	(\$37,200)	(\$31,000)	\$46,300	\$37,900	\$40,200	\$23,800	\$17,300		

### Notes:

This analysis assumes that there is current and ongoing market demand for each of the above noted uses.

All values are illustrative only and may vary according to local market conditions.

Assumes retail to have NNN rents, for-rent residential to have FSG rents.

Costs per RS Means, Marshall & Swift, and ERA.

Financing rates per Nationwide Construction Loans.

Capitalization rates per LoopNet (historic). Rates applied to income from for-rent residential (6.5%), office (7.5%), and retail (7.5%).

Please see Appendix Table 3 for specific pro forma assumptions.

Source: ERA

## Appendix

Figure 1: Alternative E/F Hybrid (Visual Representation)



Source: Civitas

**Figure 2: Alternative E-F Hybrid Development Scheme**



Source: Civitas

**Table 1: Illustrative Commercial Land Value Threshold Estimate**

Industrial	Low	Mid	High
Sales/SF	150	175	200
FAR	0.4	0.4	0.4
Acre	1.0	1.0	1.0
Building Size	17,424	17,424	17,424
Sales Price	\$2,613,600	\$3,049,200	\$3,484,800
Sales/SF	\$60.00	\$70.00	\$80.00

  

Commercial	Low	Mid	High
Sales/SF	250	275	300
FAR	0.25	0.25	0.25
Acre	1.0	1.0	1.0
Building Size	10,890	10,890	10,890
Sales Price	\$2,722,500	\$2,994,750	\$3,267,000
Sales/SF	\$62.50	\$68.75	\$75.00

Source: CoStar, ERA

**Table 2: For-Sale Price Estimates (Historic New Construction: 2000 - 2007)**

Area	Sales/SF	River High Rise	Trolley High Rise	River Mid Rise	Mixed Use
		\$425	\$415	\$375	\$350
Downtown	\$505	-16%	-18%	NA	NA
Mission Valley	\$388	NA	NA	-3%	-10%
1/ East Village and Cortez Neighborhoods					

Source: MarketPoint, HanleyWood Market Intelligence, and ERA

**Table 3: For-Sale Price Estimates (New and Re-Sale Year-End 2008)**

Zip Code	2008 Average Sales Price
Mission Valley (92108)	\$276,000
Navajo (92119)	\$180,000
Navajo (92120)	\$193,000
Tierrasanta (92124)	\$345,000

Source: DataQuick and ERA

**Table 4: For-Rent Price Estimates (Existing: 2009)**

Zip Code	Price/SF
Mission Valley (92108)	\$1.90
Navajo (92119)	\$1.59
Navajo (92120)	\$1.59
Tierrasanta (92124)	\$1.80

Source: Individual Facilities and ERA

**Table 5: Illustrative Residual Land Value Analysis**

[Please see attached. This page is intentionally left blank]



## Illustrative Development Proforma

## Project Description

	River Adjacent 11 Story High Rise (2 Towers) with 4 Story Wrap (For-Sale)	River Adjacent 13 Story High Rise (2 Towers) with 5 Story Wrap (For-Rent)	Trolley Adjacent 20 Story High Rise with 4 Story Wrap (For-Sale)	Trolley Adjacent 24 Story High Rise with 4 Story Wrap (For-Rent)
Site Area (acres)	3	3	3	3
Site Area (sf)	130,680	130,680	130,680	130,680
Dwelling Units	280	357	280	357
Commercial (sf)	0	0	0	0
Gross Building Area (sf)	336,000	336,000	336,000	336,000
Net Buildable Area (sf)	285,600	285,600	285,600	285,600
Building Efficiency	85%	85%	85%	85%
Type of Parking	Structure	Structure	Structure / Sub	Structure / Sub
Total Number of Parking Spaces	420	535.5	360	456
Construction Time (months)	24	24	24	24

## Project Revenues (at Stabilization)

Gross monthly Rent/sf /1		\$2.50		\$2.40
Stabilized Occupancy		95%		95%
Annual Effective Gross Income (EGI)		\$8,139,600		\$7,814,016
Operating Expenses (% of EGI)		30%		30%
Management Fees (% of EGI)				
Non-Reimbursable (% of Operating Expense)				
Total Operating Expense		\$2,441,880		\$2,344,205
Net Operating Income (NOI)		\$5,697,720		\$5,469,811

## For Sale/Rental Properties (at Full Absorption)

Sales Price (\$ per net sf)	\$425		\$415	
Sales Price Per Unit	\$433,500		\$423,300	
Number of Units in Development	280	357	280	357
Less Sales Commissions	4%		4%	
Total Sales Revenue	\$116,524,800		\$113,783,040	

## Construction Costs /2

Site Prep (\$psf of site area)	\$1.00	\$1.00	\$1.00	\$1.00
Demolition (\$psf of building area)	\$1.00	\$1.00	\$1.00	\$1.00
Total (Site Prep and Demo)	\$148,104	\$148,104	\$148,104	\$148,104
Base Hard Cost (\$ per net sf)	\$254	\$200	\$250	\$197
Base Hard Cost (\$ per gross sf)	\$216	\$170	\$212	\$167
Commercial Tenant Improvements (\$psf)				
Parking (\$ per space)	\$20,000	\$20,000	\$25,000	\$23,952
Total Parking Costs	\$8,400,000	\$10,710,000	\$9,000,000	\$10,910,000
Total Hard Costs	\$81,028,104	\$68,081,633	\$80,445,528	\$67,246,339
A&E (% of hard costs)	6.0%	6%	6%	6%
Contingency (% of hard costs)	5.0%	5%	5%	5%
Overhead (% of hard costs)	5.0%	5%	5%	5%
Taxes/Insurance (% of hard costs)	1.0%	1%	1%	1%
Fees and Misc. (% of hard costs)	1.5%	3%	3%	3%
Impact Fees /3	\$3,360,000	\$4,284,000	\$3,360,000	\$4,284,000
Developer Profit /4	10.0%	12%	10%	12%

## AMOUNT TO BE FINANCED

	\$111,030,783	\$85,981,960	\$111,272,938	\$84,979,607
Financing and Leasing /5				
Construction Loan Fees	1.50%	1.50%	1.50%	1.50%
Closing Costs and Appraisal	1.50%	1.50%	1.50%	1.50%
Interest Rate	6.63%	6.63%	6.63%	6.63%
Term of Loan (months)	24	24	24	24
Average Balance Drawn	65%	65%	65%	65%
Construction Interest	\$9,562,526	\$7,405,196	\$9,583,382	\$7,318,869
Leasing Commissions	\$0	\$366,282	\$0	\$351,631
Average Lease Term (years)		1.5		1.5
Total Leasing Commission		3%		3%

TOTAL DEVELOPMENT COSTS	123,924,233	96,332,897	124,194,507	95,199,495
\$PSF of Gross Building Area (rounded)	\$434	\$337	\$435	\$333
\$ per Unit (rounded)	\$443,000	\$270,000	\$444,000	\$267,000

## Capitalization

Annual Net Revenues (NOI)		\$5,697,720		\$5,469,811
Cap Rate		6.50%		6.50%
Capitalized Value (rounded)		\$87,660,000		\$84,150,000

## Estimated Land Residual Values (rounded)

Capitalized Value	\$116,520,000	\$87,660,000	\$113,780,000	\$84,150,000
(Less Development Costs)	(\$123,920,000)	(\$96,330,000)	(\$124,190,000)	(\$95,200,000)
Residual Land Value	(\$7,400,000)	(\$8,670,000)	(\$10,410,000)	(\$11,050,000)
\$PSF of Land Area	(\$57)	(\$66)	(\$80)	(\$85)
\$ per Unit	(\$26,400)	(\$24,300)	(\$37,200)	(\$31,000)

## NOTES

- / 1 Assumes retail have NNN rents and office have gross rents  
/ 2 Costs per Marshall & Swift, RS Means, and Economics Research Associates  
/ 3 Based on Mission Valley development fees.  
/ 4 Developer's profit calculated as 10 percent of total sales for for-sale units and 12 percent of hard costs for commercial/for-rent development  
/ 5 Financing rates per Nationwide Construction Loans

	River Adjacent Midrise	River Adjacent Midrise	Lowrise
	River Adjacent 4 Story Mid Rise (For-Sale)	River Adjacent 4 Story Mid Rise (For-Rent)	3 Story Low Rise (For-Rent)
<b>Illustrative Development Proforma</b>			
<b>Project Description</b>			
Site Area (acres)	3	3	3
Site Area (sf)	130,680	130,680	130,680
Dwelling Units	210	210	60
Commercial (sf)	0	0	0
Gross Building Area (sf)	252,000	197,647	48,000
Net Buildable Area (sf)	214,200	168,000	40,800
Building Efficiency	85%	85%	85%
Type of Parking	Surface / Tuck	Surface / Tuck	Surface / Tuck
Total Number of Parking Spaces	315	315	90
Construction Time (months)	18	18	14
<b>Project Revenues (at Stabilization)</b>			
Gross monthly Rent/sf /1		\$2.15	\$1.90
Stabilized Occupancy		95%	95%
Annual Effective Gross Income (EGI)		\$4,117,680	\$883,728
Operating Expenses (% of EGI)		30%	30%
Management Fees (% of EGI)			
Non-Reimbursable (% of Operating Expense)			
Total Operating Expense		\$1,235,304	\$265,118
Net Operating Income (NOI)		\$2,882,376	\$618,610
<b>For Sale/Rental Properties (at Full Absorption)</b>			
Sales Price (\$ per net sf)	\$375		
Sales Price Per Unit	\$382,500		
Number of Units in Development	210	210	60
Less Sales Commissions	4%		
Total Sales Revenue	\$77,112,000		
<b>Construction Costs /2</b>			
Site Prep (\$psf of site area)	\$1.00	\$1.00	\$1.00
Demolition (\$psf of building area)	\$1.00	\$1.00	\$1.00
Total (Site Prep and Demo)	\$148,104	\$148,104	\$148,104
Base Hard Cost (\$ per net sf)	\$182	\$129	\$124
Base Hard Cost (\$ per gross sf)	\$155	\$110	\$105
Commercial Tenant Improvements (\$psf)			
Parking (\$ per space)	\$11,333	\$11,333	\$8,000
Total Parking Costs	\$3,569,895	\$3,569,895	\$720,000
Total Hard Costs	\$42,777,999	\$25,459,175	\$5,908,104
A&E (% of hard costs)	6%	6%	6%
Contingency (% of hard costs)	5%	5%	5%
Overhead (% of hard costs)	5%	5%	5%
Taxes/Insurance (% of hard costs)	1%	1%	1%
Fees and Misc. (% of hard costs)	3%	3%	3%
Impact Fees /3	\$2,520,000	\$2,520,000	\$720,000
Developer Profit /4	10%	12%	12%
AMOUNT TO BE FINANCED	\$61,564,799	\$33,071,011	\$7,809,725
<b>Financing and Leasing /5</b>			
Construction Loan Fees	1.50%	1.50%	1.50%
Closing Costs and Appraisal	1.50%	1.50%	1.50%
Interest Rate	6.63%	6.63%	6.63%
Term of Loan (months)	18	18	14
Average Balance Drawn	65%	65%	65%
Construction Interest	\$3,976,701	\$2,136,181	\$392,357
Leasing Commissions	\$0	\$185,296	\$39,768
Average Lease Term (years)		1.5	1.5
Total Leasing Commission		3%	3%
TOTAL DEVELOPMENT COSTS	67,388,444	36,384,617	8,476,142
\$PSF of Gross Building Area (rounded)	\$315	\$217	\$208
\$ per Unit (rounded)	\$321,000	\$173,000	\$141,000
<b>Capitalization</b>			
Annual Net Revenues (NOI)		\$2,882,376	\$618,610
Cap Rate		6.50%	6.50%
Capitalized Value (rounded)		\$44,340,000	\$9,520,000
<b>Estimated Land Residual Values (rounded)</b>			
Capitalized Value	\$77,110,000	\$44,340,000	\$9,520,000
(Less Development Costs)	(\$67,390,000)	(\$36,380,000)	(\$8,480,000)
Residual Land Value	\$9,720,000	\$7,960,000	\$1,040,000
\$PSF of Land Area	\$74	\$61	\$8
\$ per Unit	\$46,300	\$37,900	\$17,300

**NOTES**

- / 1 Assumes retail have NNN rents and office have gross rents  
/ 2 Costs per Marshall & Swift, RS Means, and Economics Research Associates  
/ 3 Based on Mission Valley development fees.  
/ 4 Developer's profit calculated as 10 percent of total sales for for-sale units and 1  
/ 5 Financing rates per Nationwide Construction Loans

Mixed-Use (For-Sale)			
	Retail - Ground Level	For-Sale - 3 Levels	4 - 5 Story Mixed Use Mid Rise (For Sale/Retail)
<b>Illustrative Development Proforma</b>			
<b>Project Description</b>			
Site Area (acres)			3
Site Area (sf)			130,680
Dwelling Units		120	120
Commercial (sf)	8,000		8,000
Gross Building Area (sf)	8,000	144,000	152,000
Net Buildable Area (sf)	8,000	122,400	130,400
Building Efficiency	100%	85%	
Type of Parking	Structure	Structure	Structure
Total Number of Parking Spaces	32	180	212
Construction Time (months)	18	18	18
<b>Project Revenues (at Stabilization)</b>			
Gross monthly Rent/sf /1	\$2.50		
Stabilized Occupancy	95%		
Annual Effective Gross Income (EGI)	\$228,000		
Operating Expenses (% of EGI)			
Management Fees (% of EGI)	4.0%		
Non-Reimbursable (% of Operating Expense)	2.5%		
Total Operating Expense	\$14,820		
Net Operating Income (NOI)	\$213,180		
<b>For Sale/Rental Properties (at Full Absorption)</b>			
Sales Price (\$ per net sf)		\$350	
Sales Price Per Unit		\$357,000	
Number of Units in Development		120	
Less Sales Commissions		4%	
Total Sales Revenue		\$41,126,400	\$41,126,400
<b>Construction Costs /2</b>			
Site Prep (\$psf of site area)			\$1.00
Demolition (\$psf of building area)			\$1.00
Total (Site Prep and Demo)			\$148,104
Base Hard Cost (\$ per net sf)	\$75	\$165	
Base Hard Cost (\$ per gross sf)	\$75	\$140	
Commercial Tenant Improvements (\$psf)	\$10		
Parking (\$ per space)	\$20,000	\$20,000	
Total Parking Costs	\$640,000	\$3,600,000	
Total Hard Costs	\$1,320,000	\$23,760,000	\$25,228,104
A&E (% of hard costs)	6%	6%	
Contingency (% of hard costs)	5%	5%	
Overhead (% of hard costs)	5%	5%	
Taxes/Insurance (% of hard costs)	1%	1%	
Fees and Misc. (% of hard costs)	3%	3%	
Impact Fees /3	\$98,968	\$1,440,000	\$1,538,968
Developer Profit /4	10%	10%	
AMOUNT TO BE FINANCED	\$1,682,968	\$34,064,640	\$35,747,608
<b>Financing and Leasing /5</b>			
Construction Loan Fees	1.50%	1.50%	
Closing Costs and Appraisal	1.50%	1.50%	
Interest Rate	6.63%	6.63%	
Term of Loan (months)	18	18	
Average Balance Drawn	65%	65%	
Construction Interest	\$108,709	\$2,200,363	\$2,309,072
Leasing Commissions	\$20,520	\$0	\$20,520
Average Lease Term (years)	3		
Total Leasing Commission	3%		
TOTAL DEVELOPMENT COSTS	1,862,686	37,286,942	39,149,628
\$PSF of Gross Building Area (rounded)			\$300
\$ per Unit (rounded)			\$326,000
<b>Capitalization</b>			
Annual Net Revenues (NOI)	\$213,180		\$213,180
Cap Rate	7.50%		7.50%
Capitalized Value (rounded)	\$2,840,000		\$2,840,000
<b>Estimated Land Residual Values (rounded)</b>			
Capitalized Value	\$2,840,000	\$41,130,000	\$43,970,000
(Less Development Costs)	(\$1,860,000)	(\$37,290,000)	(\$39,150,000)
Residual Land Value	\$980,000	\$3,840,000	\$4,820,000
\$PSF of Land Area			\$37
\$ per Unit			\$32,000

**NOTES**

- / 1 Assumes retail have NNN rents and office have gross rents  
/ 2 Costs per Marshall & Swift, RS Means, and Economics Research Associates  
/ 3 Based on Mission Valley development fees.  
/ 4 Developer's profit calculated as 10 percent of total sales for for-sale units and 1  
/ 5 Financing rates per Nationwide Construction Loans

Mixed-Use (For-Rent)			
	Retail - Ground Level	For-Rent - 3 Levels	4 - 5 Story Mixed Use Mid Rise (For Rent/Retail)
<b>Illustrative Development Proforma</b>			
<b>Project Description</b>			
Site Area (acres)			3
Site Area (sf)			130,680
Dwelling Units		120	120
Commercial (sf)	8,000		8,000
Gross Building Area (sf)	8,000	144,000	152,000
Net Buildable Area (sf)	8,000	122,400	130,400
Building Efficiency	100%	85%	
Type of Parking	Structure	Structure	Structure
Total Number of Parking Spaces	32	180	212
Construction Time (months)	18	18	18
<b>Project Revenues (at Stabilization)</b>			
Gross monthly Rent/sf /1	\$2.50	\$2.00	
Stabilized Occupancy	95%	95%	
Annual Effective Gross Income (EGI)	\$228,000	\$2,790,720	
Operating Expenses (% of EGI)		30%	
Management Fees (% of EGI)	4.0%		
Non-Reimbursable (% of Operating Expense)	2.5%		
Total Operating Expense	\$14,820	\$837,216	
Net Operating Income (NOI)	\$213,180	\$1,953,504	
<b>For Sale/Rental Properties (at Full Absorption)</b>			
Sales Price (\$ per net sf)			
Sales Price Per Unit			
Number of Units in Development		120	
Less Sales Commissions			
Total Sales Revenue			
<b>Construction Costs /2</b>			
Site Prep (\$psf of site area)			\$1.00
Demolition (\$psf of building area)			\$1.00
Total (Site Prep and Demo)			\$148,104
Base Hard Cost (\$ per net sf)	\$75	\$135	
Base Hard Cost (\$ per gross sf)	\$75	\$115	
Commercial Tenant Improvements (\$psf)	\$10		
Parking (\$ per space)	\$20,000	\$20,000	
Total Parking Costs	\$640,000	\$3,600,000	\$4,240,000
Total Hard Costs	\$1,320,000	\$20,160,000	\$21,628,104
A&E (% of hard costs)	6%	6%	
Contingency (% of hard costs)	5%	5%	
Overhead (% of hard costs)	5%	5%	
Taxes/Insurance (% of hard costs)	1%	1%	
Fees and Misc. (% of hard costs)	3%	3%	
Impact Fees /3	\$98,968	\$1,440,000	
Developer Profit /4	12%	12%	
AMOUNT TO BE FINANCED	\$1,682,968	\$25,632,000	\$27,314,968
<b>Financing and Leasing /5</b>			
Construction Loan Fees	1.50%	1.50%	
Closing Costs and Appraisal	1.50%	1.50%	
Interest Rate	6.63%	6.63%	
Term of Loan (months)	18	18	
Average Balance Drawn	65%	65%	
Construction Interest	\$108,709	\$1,655,667	\$1,764,376
Leasing Commissions	\$20,520	\$125,582	\$146,102
Average Lease Term (years)	3	1.5	
Total Leasing Commission	3%	3%	
TOTAL DEVELOPMENT COSTS	1,862,686	28,182,209	30,044,896
\$PSF of Gross Building Area (rounded)			\$230
\$ per Unit (rounded)			\$250,000
<b>Capitalization</b>			
Annual Net Revenues (NOI)	\$213,180	\$1,953,504	\$2,166,684
Cap Rate	7.50%	6.50%	6.59%
Capitalized Value (rounded)	\$2,840,000	\$30,050,000	\$32,890,000
<b>Estimated Land Residual Values (rounded)</b>			
Capitalized Value			\$32,890,000
(Less Development Costs)			(\$30,040,000)
Residual Land Value			\$2,850,000
\$PSF of Land Area			\$22
\$ per Unit			\$23,800

**NOTES**

- / 1 Assumes retail have NNN rents and office have gross rents  
/ 2 Costs per Marshall & Swift, RS Means, and Economics Research Associates  
/ 3 Based on Mission Valley development fees.  
/ 4 Developer's profit calculated as 10 percent of total sales for for-sale units and 1  
/ 5 Financing rates per Nationwide Construction Loans

	Mid Box Retail	Mixed Use Commercial		
	Retail Mid Box	Mixed Use - Ground Level Retail	Mixed Use - 4 Story Office Above Ground	Mid Rise Mixed Use Commercial (Office/Retail)
<b>Illustrative Development Proforma</b>				
<b>Project Description</b>				
Site Area (acres)	3			3
Site Area (sf)	130,680			130,680
Dwelling Units	0			
Commercial (sf)	27,000	10,800	54,000	64,800
Gross Building Area (sf)	30,000	12,000	60,000	72,000
Net Buildable Area (sf)	27,000	10,800	54,000	64,800
Building Efficiency	90%	90%	90%	
Type of Parking	Surface	Structure	Structure	Structure
Total Number of Parking Spaces	108	43	162	205
Construction Time (months)	14	18	18	18
<b>Project Revenues (at Stabilization)</b>				
Gross monthly Rent/sf /1	\$1.50	\$2.50	\$2.00	
Stabilized Occupancy	95%	95%	90%	
Annual Effective Gross Income (EGI)	\$513,000	\$342,000	\$1,296,000	
Operating Expenses (% of EGI)				
Management Fees (% of EGI)	4.0%	4.0%	4.0%	
Non-Reimbursable (% of Operating Expense)	2.5%	2.5%	2.5%	
Total Operating Expense	\$33,345	\$22,230	\$84,240	
Net Operating Income (NOI)	\$479,655	\$319,770	\$1,211,760	
<b>For Sale/Rental Properties (at Full Absorption)</b>				
Sales Price (\$ per net sf)				
Sales Price Per Unit				
Number of Units in Development				
Less Sales Commissions				
Total Sales Revenue				
<b>Construction Costs /2</b>				
Site Prep (\$psf of site area)	\$1.00			\$1.00
Demolition (\$psf of building area)	\$1.00			\$1.00
Total (Site Prep and Demo)	\$148,104			\$148,104
Base Hard Cost (\$ per net sf)	\$106	\$83	\$161	
Base Hard Cost (\$ per gross sf)	\$95.00	\$75	\$145.00	
Commercial Tenant Improvements (\$psf)	\$0	\$10	\$10	
Parking (\$ per space)	\$4,000	\$20,000	\$20,000	
Total Parking Costs	\$432,000	\$864,000	\$3,240,000	\$4,104,000
Total Hard Costs	\$3,430,104	\$1,872,000	\$12,480,000	\$14,500,104
A&E (% of hard costs)	6%	6%	6%	
Contingency (% of hard costs)	5%	5%	5%	
Overhead (% of hard costs)	5%	5%	5%	
Taxes/Insurance (% of hard costs)	1%	1%	1%	
Fees and Misc. (% of hard costs)	3%	3%	3%	
Impact Fees /3	\$371,130	\$148,452	\$742,260	
Developer Profit /4	12%	12%	12%	
AMOUNT TO BE FINANCED	\$4,487,255	\$2,394,852	\$15,718,260	\$18,113,112
<b>Financing and Leasing /5</b>				
Construction Loan Fees	1.50%	1.50%	1.50%	
Closing Costs and Appraisal	1.50%	1.50%	1.50%	
Interest Rate	6.63%	6.63%	6.63%	
Term of Loan (months)	14	18	18	
Average Balance Drawn	65%	65%	65%	
Construction Interest	\$225,438	\$154,692	\$1,015,301	\$1,169,994
Leasing Commissions	\$46,170	\$30,780	\$116,640	\$147,420
Average Lease Term (years)	3	3	3	
Total Leasing Commission	3%	3%	3%	
TOTAL DEVELOPMENT COSTS	4,893,480	2,652,170	17,321,749	19,973,919
\$PSF of Gross Building Area (rounded)	\$181			\$308
\$ per Unit (rounded)				
<b>Capitalization</b>				
Annual Net Revenues (NOI)	\$479,655	\$319,770	\$1,211,760	\$1,531,530
Cap Rate	7.50%	7.50%	7.50%	7.50%
Capitalized Value (rounded)	\$6,400,000	\$4,260,000	\$16,160,000	\$20,420,000
<b>Estimated Land Residual Values (rounded)</b>				
Capitalized Value	\$6,400,000	\$4,260,000	\$16,160,000	\$20,420,000
(Less Development Costs)	(\$4,890,000)	(\$2,650,000)	(\$17,320,000)	(\$19,970,000)
Residual Land Value	\$1,510,000	\$1,610,000	(\$1,160,000)	\$450,000
\$PSF of Land Area	\$12			\$3
\$ per Unit				

**NOTES**

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/ 5 Financing rates per Nationwide Construction Loans